1-1-1925

Pace Student, vol.10 no 8, July, 1925

Pace & Pace

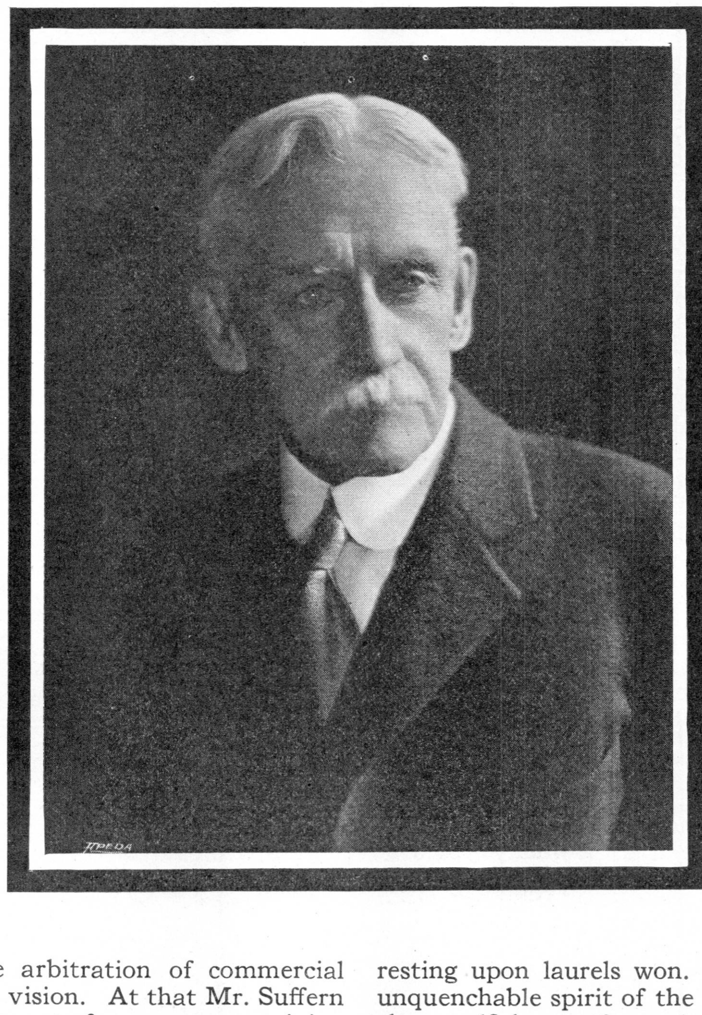
The Pace Student

Vol. X New York, July, 1925 No. 8

An Appreciation of Edward L. Suffern
1845-1925

"AS for tomorrow, who shall say—is any one qualified to speak more positively? Perhaps, but it is safe to say that there will not be less literature but more, and that in each class of business there will be a greater tendency towards better and more intelligent management, with which development the accountant must more than keep abreast."

Thus wrote Edward L. Suffern at age eighty, with the imagination and forward-looking vision of the man fifty years his junior. If age is determined by whether one dwells in the past or in the future, then Edward L. Suffern—soldier, scholar, accountant, gentleman, friend—never became old. His constructive imagination, his courteous and genial personality, still seem to be working with us and for us, although we know he left our councils, never to return, on April 13, 1925.



Two years ago the arbitration of commercial disputes was a hope, a vision. At that Mr. Suffern undertook the development of accountancy opinion favorable to arbitration. He worked untiringly. He presented the subject, with the aid of other accountants, to the annual meeting of the American Institute of Accountants in September, 1923, with the result that the Institute became actively identified with the movement. The vision of two years ago has become an accomplished fact in the Federal Arbitration law and in the statutes passed or pending in many of the states. Accountancy will for all time, by reason of Mr. Suffern's work and vision, be identified with this great forward movement in business and legal procedure.

Remarkable, is it not, that a man approaching the four-score mark, with the retrospect gained by sixty years or more of active business and professional life, with his earthly future narrowing to a time pitifully short, should thus plant and nurture that which he knew would be reaped by others?

Here we find no fireside ease, no basking in the sunshine of more genial climes, no resting upon laurels won. Here we find only the unquenchable spirit of the pioneer in good works, the unselfishness of a soul refined by years of work for others.

If we look backward over the active career of

Mr. Suffern in accountancy, a period of thirty-six years extending from 1889 to 1925, we find a consistent record of quiet but effective accomplishment. He was born in the city of Brooklyn in 1845. He received his academic education in a New York preparatory school and in the College of the City of New York. He entered the service of his country in 1862, when he was eighteen years of age, and saw much active service as a midshipman.

Mr. Suffern had a long and successful business experience during the period that extended from the close of the Civil War until he entered accountancy practice in 1889. This experience served as the basis for his professional career. During this business period of his life, he was engaged in insurance, banking, and manufacturing activities. By reason of his business abilities and acumen, he advanced, during this period, to important corporate positions involving executive management.

Accountancy received its first official recognition in this country by the enactment of the New York certified public accountant law in 1896. Mr. Suffern, therefore, was in position to aid, by his constructive imagination and technical abilities, in the establishment of a new profession—a profession that should peculiarly serve the developing commercial interests of the country. He was a member of the American Association of Public Accountants, the predecessor of the present American Institute of Accountants, and contributed unselfishly of his abilities and resources to its work. His fellow members showed their appreciation of his services by electing him to the presidency of the American Association; a position in which he served from 1910 to 1912. He was able, by directing the activities of this national association during his term of office, to improve and strengthen the standing of the accountant in every part of the country. Later he served as a member of the Council of the American Institute of Accountants.

Mr. Suffern was a member of the New York State Society of Certified Public Accountants from its organization in 1897 to the time of his death, a period of twenty-eight years. He contributed valuable services to the work of the Society and saw it develop from a handful of accountancy pioneers to a great society with a membership of approximately nine hundred. He served it repeatedly as a director in the management of its affairs, as vice-president; and, in the years 1913 and 1914, as president.

Mr. Suffern was also a member of the New Jersey Society of Certified Public Accountants and of many other accountancy, civic, fraternal, and social organizations. He was for many years a member of the accountants' round-table, a social organization of accountants that did much in the early days to develop acquaintanceship and fraternal feeling among practicing accountants. He was a member of the City Club of New York, and was always in close contact, through this and other memberships, with matters of public concern.

During the war Mr. Suffern was chairman of the War Committee of the American Institute of Accountants; and in this capacity, he rendered a signal service to his country by directing the services of accountants into proper channels. Many of the mistakes made by the British Government in the early stages of the war, by which hundreds of technically trained accountants were assigned to work that could as well have been performed by non-technical men, were avoided by reason of Mr. Suffern's ability and energy, and his intimate knowledge of the distinctive abilities of thousands of accountants throughout the country.

Mr. Suffern for many years was the senior member of the accountancy firm of Suffern & Son. Later, upon the dissolution of this firm, he became a member of Loomis, Suffern & Fernald, a firm which for many years has occupied a leading position among the accountancy firms of the country.

Mr. Suffern's life was long, active, and well-balanced. From the time of his boyhood, when he entered the service of his government, there was no time in which he was not devoting a considerable part of his time and abilities to the work of his country or his community and to the advancement of the interests of his fellows. Whether he was serving on a gunboat, in 1862, or upon an important war committee, in 1918; no matter whether the call was from his community or from his professional societies, Edward L. Suffern was a man to be counted upon. When the call came, he answered affirmatively and performed his duties unostentatiously, but with energy and precision.

The most distinctive characteristic of Mr. Suffern is the most difficult to describe. We refer to his personality—his graciousness, his charm of manner, his kindly interest in the affairs of others, his faultless English, his kindly but patricianlike countenance. All these things and more entered into the personality of Edward L. Suffern. This charm of personality need not be described to his friends—they knew it well and keenly feel its absence.

Mr. Suffern was married to Alice de Riemer Adams in 1872, who died but a short time before Mr. Suffern. They are survived by four sons, Robert, Philip, Ernest, and Edward, and by a daughter, Elsie.

Mr. Suffern's home was in Plainfield, N. J. To this home, in an early spring setting of beautiful trees and shrubbery, came accountants and other friends from all parts of the metropolitan area to pay their respects to the memory of Mr. Suffern at the time of his funeral.

The real tribute to the memory of Edward Lee Suffern, however, is found in the hearts of the many friends who survive him and who were benefited and strengthened and helped by his sagacious counsel and by his ready sympathy. "E. L." as he was familiarly known by his intimates, ripe in years and full of good works, his last accounting made, has passed to his reward. Peace be with him.

Inheritance Taxation of Today

Talk Delivered at Pace Alumni Association Luncheon, New York City, May 16, 1925
by Harold Dudley Greeley, Attorney at Law, Lecturer on Estate Accounting and Taxation in Columbia University

FROM earliest childhood we have been taught that only two things are certain—death and taxes. Since this subject concerns both of them, we may conclude that it is doubly certain. Although is it a very certain subject, nevertheless it is one about which there is little general understanding. A few months ago, someone wrote to the Wall Street Journal, asking where he could secure a pamphlet giving a snappy knowledge of Inheritance Taxation. The Wall Street Journal very properly replied that there was no such pamphlet. The subject is much too involved and complicated to be covered thoroughly in any brief publication and all that we can do in this talk is to give the general outlines of it and to indicate some of the interesting problems which arise in connection with it. This talk will not enable any of you actually to compute a tax in any given estate.

In view of the complexity and the ever-changing nature of the subject, we are forced to rely upon statutes and decisions, preferably brought to us by one or more of the tax services. We should remember, however, that these tax services are merely tools of the trade. Buying a set of carpenter's tools will not make one a carpenter, and buying a tax service or two will not make one an inheritance tax attorney. Books, after all, are the negative pictures of thought. The more sensitive the mind which reads them, the more clearly their finer points will be brought out. Therefore, much studying must be done if one is to become proficient in his grasp of inheritance taxation. We frequently hear it said that the lawyer's task is not so much to know the law as to know where to find it. This is a half truth which has caused misunderstanding. As a matter of fact, one must know much law in order to be able to find any of it. In dealing with the numerous types of information which are brought to us by the tax services, let us always remember that the statute itself is the main highway. Regulations, opinions, and comments by text writers represent in the last analysis only what someone thinks about the law. The statute itself should always be the first point of attack.

Inheritance taxation is not a new matter. It has a very respectable antiquity, but only recently has it received much publicity. We hear much more about the income tax because that is a tax which affects everybody every year, whereas the inheritance tax touches us only once and then at a time when, so far as we know today, we are not taking much interest in financial affairs. The sad part of it is that the inheritance tax hits our families for whom we would provide. It hits us too on those rare occasions when we ourselves are beneficiaries of an estate. Then, when we struggle through the delay and expense and annoyance of securing our gifts, we begin to think that after all there may be something in the old adage that it is more blessed to give than to receive.

The power to tax is the power to destroy, and our legislators received such an impetus from war necessities that they seem recently to have gone mad with this new toy of the power to destroy through taxation. The only obstacle in the way of complete destruction is the Constitution and we have recently seen that the Constitution may be rather easily amended. Taxation is now one of our biggest public issues.

The inheritance tax is not on property but it is on the passing or transfer of property at death. From time immemorial, the right to direct how one's property shall be disposed of at his death was not a natural right but was one specifically conferred by the local government. Therefore, each state in this country has the undoubted right to tax the privilege of directing the disposition of one's property at death because it is the state itself which grants this privilege. There can be no question about the legality of a state inheritance tax. The Federal Government, however, confers no right of transfer or succession at death, but nevertheless, it too imposes an inheritance tax. This tax has been justified under the power of Congress to levy excise duties and it has been held not to violate the 14th Amendment guaranteeing a quality of protection of laws. While the Federal estate or inheritance tax was unobjectionable as a war measure, there is little excuse for it today. The importance of inheritance taxation can readily be seen when we realize that one-thirtieth of the country's wealth changes hands every year through death.

Inheritance taxes are now imposed by the Federal Government and by 46 states. These taxes are of two types or kinds. First, there is a tax on the estate as a whole, to be deducted before distribution is made. The Federal estate tax and the taxes imposed by a few of the states are of this type. The second kind of inheritance tax is a tax imposed on the share to be received by each beneficiary, the tax to be paid by him. This is the type of tax imposed by the great majority of the states. Some states, for good measure, impose both kinds of tax.

The Federal estate tax naturally applies to the entire country but we cannot by analogy reason that a state tax is limited to its own boundaries. An inheritance tax, imposed by a state, is not limited to its own boundaries except as to land. Transfers of personal property may be taxed in many states because of the movable nature of such property.

The transfer of tangible personal property may be taxed by the state having jurisdiction of the property because of its physical presence within the state. The identical transfer may be taxed again by the state having jurisdiction of the owner of the property. For example, the Gould Estate of New Jersey paid many thousands of dollars to New York because it had kept jewelry and silverware in a New York safe deposit vault, whereas if it had kept these articles in a Newark safe deposit vault it would have avoided this additional tax.

The taxation of transfers of intangible personal property is much more extensive. When, for example, a stockholder dies, before his certificate of stock can be transferred to his personal representative for sale, or other distribution as a part of his estate, a tax must be paid to the state of decedent's domicile, to the state where the certificate has been kept, to every state in which the corporation was incorporated, and to many states where the corporation had property, whether or not the decedent had ever been within any of those states. The legality of imposing a tax merely because the corporation had property in the state is now being contested in the United States Supreme Court, on a case arising from North Carolina, and a similar contest is taking place in Arizona. It must be remembered that many corporations are incorporated in more than one state. For instance, the New York Central Railroad Company is incorporated in each of the six principal states through which its main highway travels—New York, Pennsylvania, Ohio, Indiana, Illinois, and Michigan. Before a certificate of New York Central stock can be secured by the representative of an estate, negotiations must be had with the taxing authorities of each of these six states.

The burden of such non-resident taxation upon the transfer of intangible personal property is frequently felt, not so much in the cost in actual expense for attorney's fees and taxes as in the losses through delay in securing possession of the property. Recently, a trust company negotiated by wire for waivers from the State of Oklahoma but before the waivers could be secured, the stock dropped three points on the market and the estate needlessly lost $120,000.00. It has been truly said that the only time a rich man can afford to die is in a bull market. These losses are felt by smaller estates in an even more irritating way, because usually they do not have the cash resources of a large estate.

The losses to estates result chiefly from multiple taxation, that is taxation of the same transfer in more than one state. Losses are sustained also because of forced liquidation necessary in order to raise the cash with which inheritance taxes must usually be paid almost immediately after death. It has been said that we cannot take dollars to our graves but the result is the same when an estate is unexpectedly reduced by from 20 per cent to 40 per cent through unexpected inheritance taxation.

From an econmic standpoint, the worst feature of our inheritance taxation system is that the governments use these taxes for current operating expenses. Capital is destroyed in order to provide funds for current expenses. John Stuart Mill suggested that all taxes which were capital levies should be used for the retirement of public debt and Great Britain has adopted this suggestion. Our own state of Arizona has recently begun to use funds raised in this way for permanent building purposes. Spending money for current expenses is not necessarily waste. For example, a man does not waste money when he buys a meal, provided he needs it, but he isn't getting ahead very fast if he uses capital funds for that purpose. In the same way, a country does not get ahead very fast if it uses capital funds for current expenses.

It has been argued that the breaking up of large estates through inheritance taxation is good economics in that it redistributes wealth. In the first place, it seems a mistake to confuse economic theories of taxation with social reforms. Prohibition, for example, is either sound or unsound, right or wrong, entirely apart from the loss of revenue to the Government. There is some reason to suspect that legislators who talk about breaking up large fortunes are sometimes more vitally concerned with the securing of additional funds for government expenditures.

As a matter of fact, wealth is frequently not redistributed by this capital levy of inheritance taxation but often it is actually destroyed. When a man has invested his entire resources in a going business so that his estate is without cash funds with which to meet inheritance taxation, it is necessary for the business to be sold or to be heavily mortgaged. The almost inevitable result of either procedure is that the business will fail. The values in that business must be recreated or production will fall behind and, practically speaking, this necessitates a duplication of work for each generation. The man who practices industry, thrift, and self-denial to save for his family, for his employees, or for the community, is penalized.

The biggest problem of those of us who are concerned practically with inheritance taxation is that of keeping up to date. The subject of this talk, Inheritance Taxation of Today, was selected advisedly. What we laboriously learn today may not be true tomorrow. The whole subject is in a constant state of flux.

In New York, we have recently had some radical changes. The whole plan of non-resident taxation has been recast and a new tax has been created which shows in an interesting way how a state may absorb the savings of its citizens. The new tax in New York is an estate tax whereas all that we had formerly was a tax of the second general class, namely, one on the individual beneficiaries. The new estate tax in New York absorbs all of the savings which an estate may secure under section 301 b, of the Federal Revenue Act of 1924. That section allows a credit on the Federal Estate Tax for the amount of all state inheritance taxes paid to the various states, provided that the total does not exceed one-quarter of the Federal Estate Tax. In large estates, this saving may be considerable. Therefore, the New York Legislature proceeded to put into effect on April 2nd of this year, an additional estate tax to take this saving away from New York estates and to give it to the State of New York. Other recent changes are in Nevada where the inheritance tax law has been repealed to take effect July 1, 1925, in Wyoming, where a new law was recently passed, and in New Hampshire, where the state law has been declared unconstitutional. In addition to these major changes, each legislature makes enough changes of a minor character to keep us continually studying new laws. Constantly, of course, there are decisions by the various courts giving us new interpretations and new restrictions.

It is interesting to note a movement among the various states this spring toward repeal of the state inheritance tax. Nine states, namely, Arizona, California, Colorado, Delaware, Maine, Mississippi, New Jersey, Ohio, and Oklahoma, have had bills to this end introduced into their legislatures but none has been passed. This may be set down as a swing of the pendulum away from excessive inheritance taxation but it should not be regarded as a definite tendency. Inheritance taxation will probably always be with us and because of its non-resident features, it will always be of a complicated character.

One of the interesting problems in this work is the right of the Government to tax a gift made within a fixed time of death on the theory that it had been made in contemplation of death. It is evident that if a person were permitted to give away his property when death was impending, or to give it away earlier in life, to take effect at his death, with a reservation of the income to the donor during his life, an easy avenue of escape from inheritance taxation would be provided. Very early, therefore, it was recognized that the inheritance tax laws must reach gifts in contemplation of death, and gifts to take effect at death. This, of course, has no connection with the Federal Gift Tax included in the Revenue Act of 1924, because that gift tax applies solely to gifts *inter vives*.

Among the various taxing jurisdictions of the country are found three types of statute seeking to reach gifts in contemplation of, or to take effect at death. One type provides merely that such gifts shall be taxable but does not describe or define them. This leaves the decision as to whether or not a particular gift comes within the law, squarely to the court and throws the burden of proof on the Government. Twenty states have this type of statute.

A second type of statute provides that gifts within a specified time of death are presumed to be in contemplation of, or to take effect at death, and thus throws the burden of proof on the donor's estate, or on the donee. The time limit varies from 90 days to three years and, in about half of the jurisdictions, the gift must have been of a material part of the estate. Ten states, and the Federal Government have statutes of this type.

The third type of statute provides that a gift within a specified time of death shall be deemed absolutely to be in contemplation of, or to take effect at death, and no evidence will be received as to the actual nature of the gift. The time specified under this type of statute varies from six months to six years, and in about half of the jurisdictions, the gift must have been of a material part of the estate. There is, at the present time, a case in the United States Supreme Court arising under the Wisconsin statute, which imposes a six year period, testing the right of the Government to make such a gift taxable. This type of statute is found in 16 states.

Another problem of considerable interest is the right of the Government to tax life insurance payable to beneficiaries other than the estate. The proceeds of life insurance payable to one's estate obviously form part of that estate but the Federal Government and five states seek, in one way or another, to include in one's estate the proceeds of life insurance payable to individual beneficiaries. This means life insurance of every description, including death benefits of fraternal beneficial societies, operating on the lodge system, provided the deceased paid the premiums directly or indirectly, whether or not he made the application.

There is considerable doubt as to the legality of this type of taxation. The courts of New York and Massachusetts have declared against it and only recently the United States Supreme Court took a qualified position with regard to it in the case of Lewellyn v. Frick. Unfortunately, the Frick case did not produce a decision of much fundamental help. The court said that taxation of this kind could not be imposed where the beneficiaries of the policies had been named prior to February 24, 1919, the effective date of the 1918 Revenue Act. The ground of the decision was that such a tax would impose unexpected liabilities. The broad question was not touched upon but the court said, "We do not propose to discuss the limits of the powers of Congress in cases like the present." Therefore, we know very little more today than we knew before this decision, concerning the right of the Government to construe as a part of decedent's estate money paid to individuals in no way connected with the estate, by insurance companies on contracts made with the decedent.

The chief difficulties in administering the inheritance tax are found under the second type of taxation, namely that which imposes the tax on individual beneficiaries, and in that field, particularly with reference to non-resident taxation. The taxes on transfers to individual beneficiaries are usually graduated according to degrees of relationship and amounts involved. In each case certain deductions and exemptions may properly be applied. The Wall Street Journal recently turned a happy phrase when it said that the old maxim *caveat emptor* should be changed into *caveat exemptor*—let one who claims an exemption beware. Certainly, in many cases, a properly advised legatee or devisee may secure a substantial saving if he renounces his gift instead of assigning it when he wants some other relative or beneficiary to have the benefit of it.

Non-resident taxation varies from a simple flat rate plan to a complicated ratio or proration scheme. The simple flat rate plan, usually referred to as the Matthews plan, is found in New Hampshire, Connecticut, Virginia, and Kentucky. Under it, a flat tax of 2 per cent is imposed upon all of the non-resident's personal property within the state, without deductions or exemptions. The most complicated ratio plan is found in New Jersey. There, the tax on the non-resident's transfer shall bear the same ratio to the tax which would have been assessed if decedent had been a resident, as the taxable property of the non-resident within the State of New Jersey bears to his entire property wherever situated. The new plan of taxing non-resident estates, adopted last month in New York, presents difficulties somewhere between the simple flat rate plan of New Hampshire and the complicated ratio plan of New Jersey.

The complications and complexities of the subject have perhaps been indicated in this sketchy talk. It is certain that much illegal assessment occurs partly because of the ignorance of taxpayers concerning their rights and partly because the amounts involved are frequently too small to warrant litigation through to the United States Supreme Court.

There are, however, many legitimate ways of avoiding illegal over-assessment. It is merely the part of wisdom to prevent legally avoidable and wholly unnecessary losses to one's estate. No intelligent person who expects to leave $5,000.00 or more in his estate can fairly ignore the effect of the inheritance tax. To ignore it would be supremely selfish because the tax burden will fall upon the very persons for whom provision is sought to be made by will, or upon the persons to whom decedent's property will be distributed, or will descend, if he dies without a will. A survey should be made during one's life of his property of all kinds with particular reference to his domicile and to his intended disposition of the property. Surveys almost invariably disclose possibilities of very substantial savings in inheritance taxation through the shifting of investments without loss of either security or income. After one's death, the actual assessment of the various inheritance taxes must obviously be watched in order to prevent the decision of doubtful points in favor of the Government.

Not so very many years ago, the Government imposed a stamp tax on checks of $20.00 or more. A check for less than $20.00 required no stamp and thus the thoughtful citizen was prone to give numerous checks of less than $20.00 rather than one check for an amount exceeding $20.00. This was considered an entirely legitimate way of avoiding the stamp tax and, in 1873, the United States Supreme Court in United States v. Isham said that there was nothing objectionable "if a careful individual having the amount of $20.00 to pay, pays the same by handing his creditor two checks of $10.00 each."

There is ample legal justification for the exercise of every legitimate means to avoid illegal over-assessments of taxes. Under our present system of inheritance taxation, the ways of avoiding unwarranted over-assessment are not as easy as the one just mentioned concerning the stamp tax on checks. In fact, our system of taxation is so complicated that one of the popular writers in the Saturday Evening Post has likened it to a muskrat house. On the outside it is round and tight and smooth. But on the inside there are many different ways of getting out without getting caught. If the taxpayer, however, does not know the ways or if he does not have a competent guide, he is sure to get caught and before he is caught his wanderings in the maze of statutes, decisions, rulings, opinions, and the like, will make Alice's trip through Wonderland seem like a stroll down Fifth Avenue.

The Editor's Letter Box

IS capital stock a liability? This question is repeatedly asked, and considerable confusion has arisen as to what is the correct answer. In this connection, correspondence between an official of a banking institution and Mr. Homer S. Pace, is given for the information of our readers. The letter from the official was in part as follows:

"We should appreciate your furnishing us with your opinion as to whether or not capital stock is, in a final sense of the word, a liability or an accountability.

"We should also like to have you name three or four textbooks that will furnish us with a definition regarding this matter."

In his reply, Mr. Pace wrote as follows:

"The invariable characteristic of a liability is that it imposes an obligation on the part of the one subject to the liability to turn over to another person or organization a certain or determinable amount of asset value, either immediately or at some future time.

"Capital stock owned by an individual or an organization never comes due to be paid to another person or organization at any time. It is a formal evidence of the proprietorship of a certain part of the capital of a legal entity known as a corporation, and is of the same character, although subject to certain distinctive legal controls, as the investment of a sole proprietor or a partner in a business enterprise. It is not a liability.

"It happens in the double-entry procedure that the proprietorship element is used in conjunction with liabilities to effect the balance or equilibrium that is the distinctive characteristic of double-entry. The association of the proprietorship element, including the corporate proprietorship known as capital stock, with the liabilities in this double-entry procedure, no doubt, has brought about the confusion that exists with regard to this matter. Inasmuch as capital stock is necessarily associated with the liabilities on the same side of the balance sheet, and inasmuch as the term liabilities is often used as a balance sheet caption on the side on which the liabilities and capital interest appear, it is small wonder that confusion has resulted.

"I do not recall at the moment having seen in any textbook a clean-cut statement with regard to this matter. However, if you are desirous of looking over what has been written on the subject, I suggest that you call upon Miss L. Miltimore, librarian, of the American Institute of Accountants, 135 Cedar Street, New York City, who, no doubt, will be glad to afford you all the facilities of the library for your purpose."

THE following correspondence between an accountant, a brother of a student in the Extension Division of Pace Institute, and Mr. Homer S. Pace, with respect to the term *interest*, will be of interest to the readers of *The Pace Student:*

"I notice in the supplemental questions of Lecture 1, Theory and Practice of Accounts, Applied Economics and Organization, Question 1 (d), my brother answered, 'Interest is the use of money, and is the term commonly applied to the compensation for the use of money.' In correcting the answer you put the words, 'use of money, and is the term commonly applied to the,' in parentheses, making the answer read, 'Interest is the compensation for the use of money.'

"I have never paid or received *interest* for the use of money. I have always received *money* and not *interest*. Interest is the use of money. Money is *money* and not *interest*. People are heard saying 'I paid rent,' 'I paid interest.' but you do not hear people say 'I paid roast beef.' Interest is the use of money; however, Seager defines interest as, 'Interest is what is paid for the use of capital'; Nearing, 'Interest may be defined as a reward or premium that is constantly offered by the business world to those members of Society that will save and invest their money rather than spend it.' Beginners in bookkeeping are taught to debit that which is received and to credit that which is parted with. Following such instructions, when one pays for the use of borrowed capital, he charges *interest* (that which is received, being the use of capital or money) and credits *cash* (that which is parted with, being the money paid). If the interest is money paid, as defined in the corrected solution, the student would be confronted with the necessity of crediting that which is parted with, or *interest*, and would have to charge that which he received, or *interest*. What would become of the necessary credit to *cash?*"

In answer to the foregoing, Mr. Pace wrote as follows:

"I refer you to the Century Dictionary, which I presume is our most comprehensive authority. It defines '*interest*' as payment, or a sum paid, for the use of money, or for forbearance of a debt. Evidently, according to the Century, and I believe in accordance with common practice the world over, the term is used to indicate the sum or amount paid for the use of money.

"Your remarks with respect to the use of the term '*interest*' to designate a nominal account chargeable with the amount of money paid out or to be paid out by reason of the use of borrowed capital are interesting. I can hardly see that what you say affects the accepted use of the term interest. Take another instance—what do we mean by the term *income?* I presume you would agree that we mean cash or other asset value received or to be received by reason of operations. The asset acquired as income would be recorded by a debit entry; but it would be entirely proper in double-entry bookkeeping to make a credit in a nominal account, which could be known as *income* or by any other name that would indicate the nature of the account, such as rent, interest and dividends, or sales. It is not at all necessary, because income means the acquisition of asset value, to refrain from crediting a nominal account known as income. In the use of the word *interest* to designate a nominal account of an expense nature, it is used like the terms *salaries* or *expense* or *rent*, in each of which instances the nominal account merely records an asset value that has passed out, or is to pass out by reason of the cost incurred.

"We may develop special and restricted meanings of terms if we please in double-entry, as we have done in the instance of the mechanism of nominal accounts. We can not, however, as accountants or as a mere matter of theory, make over the use of the English language. That job is attended to by the great mass of people who speak English; and in speaking and writing, we are bound to conform measurably to usage, the most authentic interpretation of which we find in our standard dictionaries.

"Of course, if one wishes to study the fine economic distinctions in such terms as *capital, interest, rent,* and the like, that are made by economists, he will find much of interest and something of value. We do not attempt, in teaching elementary accounting, to go very far into many of these fine distinctions with which, of course, we are reasonably familiar. We think it is much better to proceed to the teaching of the essential principles of double-entry."

THE PACE STUDENT

A monthly Magazine of service, interpreting the purpose, spirit, and needs of Modern Business

Subscription $1.50 a year, Payable in Advance

PACE & PACE, Publishers

30 Church Street · New York City

Cost Accounting Procedure in a Pottery Manufacturing Sanitary Ware

An article based on the graduation thesis of Frederick Banks, Pace Institute, New York

PERHAPS, during your morning shower, you have often wondered how clay could be shaped and hardened and how it could be given a highly polished surface and be utilized in making one feel so much like giving his utmost in his daily tasks. Your wonderment probably increased when, upon reflection, you realized that the all-clay bath-tub, the shower receptor, and the lavatory are made from the earth itself.

As a basis for discussion of the accounting procedures used in the manufacturing of sanitary ware, let us make an imaginary trip through a pottery.

We may profitably start in the cellar, where the clay is stored in vast bins as it is received from the clay mines. The clay before it is ordered is analyzed by the chemist; and the proper proportion to mix with other clays is determined. The first process in manufacturing is known as "disintegrating." The clay is placed in a large cylindrical blunger, where it is mixed with other clays and with the aid of water is reduced to a liquid form. By means of pumps it is then delivered to the laun, a mechanical apparatus covered with 80 mesh wire cloth, over which the liquid clay flows. As the mixture flows over the laun, high-power magnets draw out any iron that may be in the clay. Iron if left in the clay would produce large green spots during kiln fire, which would destroy the selling value of the completed fixture. After this process is finished, the clay is conveyed to an agitator, where it is again mixed.

It is then pumped to large presses made of hemp bags, which are pressed together by a large mechanical press. In this operation the excess water is eliminated. These presses are built on the same mechanical principle as the old style letter presses were built, differing only in the fact that they are horizontal instead of vertical. The pressure leaves a cake of clay about an inch in thickness and about 18 inches square.

These cakes are then taken to a large pit, where they are mixed by hand with fine grog—old ware broken up and ground fine—which adds strength and durability to the clay body. It is then delivered to a pug, where the final mixing is done, coming from the pug in a roll about a foot in diameter.

The clay is then placed in storage pending delivery to the pressing department; but before the presser can shape the piece he must have a form in which to press it. We now go to the model and mold department.

Model and Mold Department

The models and molds are made of plaster of Paris. This material was chosen many years ago by ceramists because clay will not stick to its surface, and because it hastens the drying by absorbing moisture.

The artisan mixes the plaster of Paris with water to the desired thickness. He then makes an exact, full-sized model of the piece as it will look when made of clay. This is called "modeling." The workman is of necessity highly trained. He uses extraordinary skill in making the model to insure perfect utilization of the completed piece. Blue prints are his only guide in this work.

After completion of the model, it is covered with soft-soap. Then, by the application of more plaster of Paris shaped over the model, the block-mold is produced. The soft soap is used to prevent the new plaster of Paris from adhering to the model. The block-mold is then used to make a case-mold, which determines the accuracy of the modeling and resembles the piece when completed.

Finally, from the case-mold is made the working molds. The model and block-mold having served their purpose are destroyed. The number of working molds which may be made from a case-mold is unlimited. The working molds are now ready for delivery to the pressing department.

Pressing Department

Upon receipt of the working molds and the clay, the artisan begins his work. His first step is to work the clay into a usable condition—to suit the shape and needs of the particular piece he is making. Then he works the clay into the hollow forms of the molds. Usually the molds are made in several parts in which instance it is necessary to fill each part separately, making certain that there are no air-spaces left in the clay. This necessitates great skill and patience. After the separate parts are completed, they are roped together. The seams are then gone over and the piece made integral. The artisan with care and patience then models the interior of the piece. In going through the shops one is greatly affected by the interest, care, patience, and skill that the artisans exercise in order to make the utilization, beauty, and durability of the pieces beyond comparison.

The following morning the molds are taken from the piece and the outside is rubbed and finished off. This is done to insure a fine, smooth, glazed exterior. The piece is then allowed to remain on the stilts for a period of from ten to fourteen days. During this period nature alone does the drying. Up to this period losses are very heavy, and great care is given the piece.

Drying Department

The piece is now trucked to the dry-rooms, where, by the aid of mechanical heating apparatus, the piece is thoroughly dried. It is allowed to remain here at least two weeks.

Glaze Mixing Department

Before continuing with the progress of the piece, let us stop for a few minutes with the chemist. He formulates the quantities for the mixing of the ingredients and must know the amount of silica, sand, quartz, and the like, that the clay contains in order that the glaze will properly adhere and vitrify. He also formulates the quantities for the glazes. In doing so he must give consideration and thought to the adaptability to the body.

We have earlier in the story gone through the mixing of the ingredients and now will discuss the making of the glaze. The materials used are flint, spar, clay, glue, and oxides. These materials are thoroughly mixed in a rotary mixer, in which are many small balls which aid in the mixing. After the glaze is thoroughly mixed, it is stored in large refrigerators pending use by the glazing department.

Glazing Department

Perhaps it would be well to state here that glaze consists of two separate liquids—the lining and the glaze proper.

The piece is now taken from the dry-room and placed on stilts ready to be slipped and glazed. The glazer requisitions the lining from the glaze department and applies it to the surface of the piece. This operation is repeated six or more times and gives the piece the white finish. The artisan must work very fast, or the lining will dry so quickly as to make it almost impossible to tell which part of the piece has been coated.

After the lining has been applied, a transparent coat of glaze is applied. This glaze is of glass, practically the same as the glass in windows or in the cut-glass on your sideboard. The piece is now ready for the kiln.

Kiln Department

Prior to placing the piece, let us walk through one of these mammoth kilns and note its construction. You will be surprised to learn that the kiln itself is made of clay. The bricks of which the kiln is made are fired at the brick factory at a higher heat than that at which sanitary ware is fired, and, therefore, are able to stand the heat of the fire used in manufacturing of sanitary ware.

The kiln is really an oven inside another oven; i.e. it has an open area between the inner and outer walls which permits the heat and gases to pass through. This tunnel-like area runs under the floor, over the ceiling, back of the walls, and is a passage sufficiently large for men to enter.

The kiln has two doors, one at each end. After the ware is placed in the kiln these doors are hermetically sealed so that no air can escape or enter. The kiln is bound by massive iron girders, which control the expansion and contraction of the walls caused by the heating and cooling of the fires. It has four fire boxes, which are fired with bituminous coal.

Upon the placing of the piece in the kiln, great care is exercised, as experience has taught that each piece must be considered from its special characteristics and placed accordingly.

The baking of the ware is a most important operation. The kiln is fired for a period of a week, reaching a temperature of 2300° Fahrenheit. It is then allowed to cool. During the period a great transformation occurs—that which was a piece of raw earth prior to being fired is taken from the kiln a piece whose texture has been refined and baked to vitrify the body and glaze, resulting in a fine, smooth, polished, white surface, impervious to acids —a finished product, ready to be packed and shipped.

Let us now go to the cost department and examine the statements and procedures necessary to make a satisfactory record and exhibit of the above operations.

The System in General

After taking into consideration our visit through the factory, and after noting the various departments and processes through which production must pass, we are ready to discuss the accounting system and the procedures incidental thereto.

The cost system is based on the departmental process method of finding costs. Overhead of each department is charged to production on the basis of direct labor. There are thirteen productive and eleven non-productive departments. For each there is a cost analysis covering materials consumed and expenses incurred in the department. The system ties in with the financial books monthly. The production is gathered from the pressman's time sheet, and the completion of the piece is determined by the kiln report.

Chart of Accounts

In order to make the chart clear and comprehensive, the financial accounts, as well as the cost accounts, are here included. The mnemonic as well as the numerical designation is used for the factory accounts.

Balance Sheet Accounts

Cash
Notes Receivable
Accounts Receivable
Reserve for Bad Debts
Salesmen and Executive advances
Inventory of Raw Materials
Inventory of Goods-in-Process
Automobiles
Reserve for Depreciation of Automobiles
Real Estate
Buildings
Reserve for Depreciation of Buildings
Machinery and Boilers
Reserve for Depreciation of Machinery and Boilers
Kilns
Reserve for Depreciation of Kilns
Factory Equipment
Fire Protection Equipment
Models and Cases
Saggers
Tile and Stands
Office Furniture
Reserve for Depreciation of Office Furniture
Unexpired Insurance
Interest Paid-in-Advance
Notes payable
Accounts payable control
Commissions payable
Interest accrued
Wages accrued
Mortgage
Capital Stock
Surplus

(*Continued on Page 124*)

Chart of Securities for a Trust or an Individual

By Miss Anna G. Gross, a Graduate of Pace Institute

THE use of a chart for the recording of securities has proved both helpful and convenient, especially when many transactions take place during the course of the year. An investor naturally desires to know, at any given time, the number and amount of securities he has on hand. The chart I have prepared (Form 1) is simple in plan, yet it displays immediately the record of any security on hand—its name, date acquired, market price, the number of shares, rate of interest, par value, and the amount paid.

Stock or bond transactions would be simple were they confined to the original investment and the income drawn therefrom. Often a person is not satisfied with his rate of interest; he may know of a safer investment or of a better bargain by the purchase of a security below par; or he may be obliged to redeem his securities under the terms of the issue or because the government or the corporation that issued them has decided to call them in. At all times it is necessary to have an accurate and complete statement of the accounts, in order to know on any date the profit or loss on a transaction. It very seldom occurs that the debits and credits of transactions are equal. From the chart, one may ascertain almost instantly whether there is a profit or a loss when there has been a sale of an old security and the purchase of a new one.

Let us trace the history of one or two investments. Take, for example, on line 4 of the chart (Form 1) there appears an item of 10M Sinclair Car Co. bonds purchased August 29, 1924, at 91½, for $9,150.00; these were sold at 90¾, less commission, or $9,067.50, or at a loss of $82.50. A substituted investment was made in QBK Collateral bonds at 95 for $9,500.00. By referring to line 15, it shows instantly they are at hand.

Let us take a second example: note line 7, 5M Union Equipments purchased at 96½, August 29, 1924, for $4,825.00; these were sold January 5, 1925, at 101, $5,050.00, or at a profit of $225.00. A new investment was made in Virginia Seed Co. at 96, or $4,800.00. Referring to line 18, we note they were sold March 15, 1925, at 105¼ or $5,262.50, a profit of $462.50. Then 6M Citizens Gas and Oil Co. bonds were bought at 88½, costing $5,310.00. Referring to line 22, we note they were sold March 27, 1925, at 100, $6,000.00, making a profit of $690.00, and a new investment made in 2½M American Tobacco Co. bonds costing $2,500.00 and in 5M Atlantic & Pacific Co. bonds costing $4,500.00. Referring to lines 23 and 24, we note these bonds are still on hand.

In the case of the Richard Thompson Trust recorded on the chart, $180,000.00 in cash was originally taken over. Observe that $177,011.25 was invested in securities (lines 1—14, inclusive, of the Cost column), leaving $2,988.75 in the bank as uninvested principal. At the present time, due to the sale of old bonds and the purchase of new bonds, the par value of securities on hand amounts to $199,500.00 (total of Par Value column minus total of Par Value of Securities Sold column); and the actual cost amounts to $179,787.50 (total of Cost column, minus total of Cost of Securities Sold column), leaving in the bank uninvested principal of $212.50 and profits

	Title of Securities	Date Acquired	Bought at	No. of Shares or Amount of Bonds	Rate of Interest	Par Value	Cost	Date of Sale	No. Sold	Sold at	Richard Thompson Trust					New Securities	Remarks	
											Selling Price	Gain	Loss	Par Value of Securities Sold	Cost of Securities Sold			
1	Grand Island Co.	8/29/24	54¼	20 M	4	20,000	10,850 00											1
2	U. S. Tire Company	"	98¼	15 M	7½	15,000	14,737 50											2
3	French Government	"	100	30 M	8	30,000	30,000 00											3
4	Sinclair Car Co.	"	91½	10 M	7½	10,000	9,150 00	10/10/24	10M	90¾	9,067 50		82 50	10,000	9,150 00	Line 15		4
5	American Tire Co.	"	74⅞ 75½	10 M	5	10,000	7,543 75	11/15/24	10M	86⅜	8,637 50	1,093 75		10,000	7,543 75	" 16		5
6	Armour Powder Co.	"	94.84	25 M	7	25,000	23,710 00	12/10/24 12/15/24	10M 15M	107.7 105.	10,770 00 15,750 00	1,286 00 1,524 00		25,000	23,710 00	" 17 " 21		6
7	Union Equipment Co.	"	96½	5 M	7	5,000	4,825 00	1/15/25	5M	101	5,050.00	225 00		5,000	4,825 00	" 18		7
8	West'n Electric Car Co.	"	94¾	2 M	7	2,000	1,895 00	1/17/25	2M	100	2,000 00	105 00		2,000	1,895 00	" 19		8
9	Swedish Government	"	100	25 M	8	25,000	25,000 00											9
10	Danish Government	"	95	10 M	8	10,000	9,500 00											10
11	Western Coal Co.	"	100	10 M	7	10,000	10,000 00	12/15/24	10M	104	10,400 00	400 00		10,000	10,000 00	" 20		11
12	Radio Corporation	"	100	10 M	7½	10,000	10,000 00											12
13	Manila Sugar Co.	"	100	15 M	7	15,000	15,000 00											13
14	Mexican Oil Co.	"	96	5 M	5	5,000	4,800 00										$2988.75 Uninv'd Prin.	14
15	Q B K Collaterals	10/24/24	95	10 M	6	10,000	9,500 00											15
16	Columbia Pie Co.	11/15/24	95	10 M	8	10,000	9,500 00											16
17	Automat Corporation	12/11/24	70	10 M	7½	10,000	7,000 00											17
18	Virginia Seed Co.	1/17/25	96	5 M	5	5,000	4,800 00	3/15/25	5M	105¼	5,262 50	462 50		5,000	4,800 00	" 22		8a
19	American Can Co.	1/18/25	95	2 M	7	2,000	1,900 00											19
20	Standard Auto Co.	12/15/24	75	10 M	5	10,000	7,500 00											20
21	Manila Electric Co.	12/17/24	100	15 M	7	15,000	15,000 00											21
22	Citizens Gas & Oil Co.	3/15/25	88½	6 M	5	6,000	5,310 00	3/27/25	6M	100	6,000 00	690 00		6,000	5,310 00	" 24 " 23		22
23	American Tobacco Co.	3/28/25	100	2½M	6	2,500	2,500 00											23
24	Atlantic & Pacific Co.	3/29/25	90	5 M	7	5,000	4,500 00											24
25	Goodridge Tire Co.	4/15/25	50	5 M	6	5,000	2,500 00										$212.50 Uninv'd Prin.	25
26																		
27																		
28																		28
29																		29
30																		30
31																		31
32																		32
33																		33

Form 1—Chart of Securities.

of $5,703.75 (Total of Gain column, minus total of Loss column).

The disposition of the profits depends upon the trust agreement. Normally, any profits should be considered as an increase in principal and invested to yield additional income, unless otherwise specified in the wording of the trust.

At all times the excess of the Par Value column over the Par Value of Securities Sold column gives the total par value of securities on hand. Likewise, the excess of the Cost column over the Cost of Securities Sold column gives the total of the cost of securities on hand. The income is usually kept in a separate bank account, and will be referred to later in connection with a chart for the specific purpose of recording income payments.

The amounts of cash shown in the Cost column will be exactly the same as the checks drawn in the check book to the order of the broker, except for accrued interest, which is not part of the principal. At all times, it is possible to compare one security with another as to invested value and income. It is interesting to observe the significant changes as they occur and to calculate the profits and losses for a certain period of time, and finally to ascertain at the end of the year the actual profit or loss. This system saves an enormous amount of valuable time in reportingto the Government profits or losses on purchase and sale of securities. The information is an essential part of Federal income tax reports. With the expenditure of but a few minutes of time, all the information required by the Government may be ascertained to show the true profit or loss. It is worth while to devote a few minutes of time to making one or two entries at the time of the transaction, in order to save hours and hours of time and labor at the end of the year. Every broker furnishes a bill of purchase or of sale at the time of the transaction; and it is easy and simple to get all the information required.

If a person desires to know the maturity date of a particular security, the amount of income and the date of payment of income, and the serial numbers of the securities, an extra column for each may be added to the chart. However, this is not the true purpose of the chart. There are two real purposes: first, to have an accurate record at all times of every security on hand belonging to a particular trust or individual; second, to preserve a record of all profits and losses for the purpose of the income tax. Each year a list may be drawn from the chart, as of January 1st, of all securities on hand, and a new chart then begun with special reference to the numbers of the old chart, although the new listing of the securities is unnecessary unless the exchanges, sales, or purchases are very numerous. The chart gives the total amount of securities on hand, and the latter must agree with the principal controlling account in the general or private ledger of the trust or individual.

Other systems may be employed in the recording of securities. For instance, a master card or loose-leaf sheet may be used for a summary record of all securities; and individual cards or sheets, one for each security, may be used for giving full detailed information with respect to each security. However, cards or sheets may be lost or misplaced, and they are probably more subject to manipulation than would be the record first indicated.

A separate chart (Form 2) is kept for showing the income from the securities. Where the income is known and fixed, it is entered on the chart under the particular month, and checked off when the money has been received and deposited in the bank. If new securities have been purchased during the year, they are added at the end of the list, while the record of those sold is eliminated. If accrued interest was paid at the time of purchase of the new security, the interest is indicated in red ink and the full amount of the next income payment indicated in black ink, the difference being the actual amount of income received.

I have found this system of recording securities and the transactions involved in buying and selling them very satisfactory and with its use there is scarcely a possibility of error. The chart is an original production of mine, having its origin and growth in our office, which demands an accurate and up-to-date record of transactions. The chart has proved extremely helpful and very valuable to us; and I trust others who may decide to use it will also find it helpful and valuable.

An Ancient Accountancy System

ONE of the chief aims of Accountancy is the establishment and verification of facts and figures for historical purposes. From this point of view, Accountancy is as old as civilization itself.

Among recent archeological excavations made in Asia Minor by Dr. Edward Chiera of the American School of Oriental Research, there has been brought to light more than 1,000 tablets from an old Mittani site. The date of the making of these tablets is placed about the year 1,500 B.C.

This collection of tablets is important not only because it is the only complete collection relating to the Mittani, but also because it is the complete written record of one family. The tablets are apparently a complete file of all the written transactions of this one family, extending over several generations. They record purchases and sales, rent transactions, contracts of various kinds, marriage settlements, promissory notes, payment of wages, private correspondence, and all other matters of importance pertaining to this one household. From these tablets the archeologist will be able to reconstruct in great detail the daily life of a wealthy Mittanian, his family, servants, and tenants.

In the light of the above it can be seen that the historian, the archeologist, and others engaged in this kind of scientific research must depend upon facts and figures which are the basic elements of our modern system of accounting procedure. By means of such accounting records, the world can never grow old.

Par Value	Name of Security 1924	Rate of Interest	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Income Annual
20000	Grand Island Co.	4	400						400						$800
15000	U. S. Tire Company	7½		562 50						562 50					1125
30000	French Government	8	600			600			600			600			2400
10000	Sinclair Car Co.	7½			375						375				750
10000	American Tire Co.	5	250						250						500
25000	Armour Powder Co.	7	875						875						1750
5000	Union Equipment Co.	7	175						175						350
2000	Western Electric Car Co.	7	70						70						140
25000	Swedish Government	8		500			500			500			500		2000
10000	Danish Government	8			400						400				800
10000	Western Coal Co.	7				350						350			700
10000	Radio Corporation	7½				375						375			750
15000	Manila Sugar Co.	7				525						525			1050
5000	Mexican Oil Co.	5				125						125			250
192000			2370	1062 50	775	1975	500		2370	1062 50	775	1975	500		13365

Form 2—Income from Securities

Cost Accounting Procedure in a Pottery

(Continued from page 121)

NOTE: No reserves for depreciation are set up for the following accounts: Factory Equipment, Models and Cases, Saggers and Tiles. These are being continually replaced and charged to expense.

Profit and Loss Accounts

General Classifications

P.D. Porcelain Department
V.D. Vitreous Department
V.V.D. Vitrico Department
F.D. Fitting Department

Sub-classifications

1 Gross Sales
2 Allowances
3 Cost-of-Goods Sold
4 Return Goods
5 Cost of Return Goods

Cost Accounts

Factory Control Accounts

Manufacturing Expense
Direct Labor
Indirect Labor
Goods-in-Process

Departmental Accounts

Productive Accounts

M.S. Mold Shop
V.L. Vitreous Slip
V.P. Vitreous Presser
V.S. Vitreous Sagger
V.B. Vitreous Biscuit
V.Z. Vitreous Glaze
V.G. Vitreous Glost
P.L. Porcelain Slip
P.P. Porcelain Presser
P.Z. Porcelain Glaze
P.K. Porcelain Kiln
G. Grinding
C.M. Crate Making

Non-Productive Departments

P. Power
A. Automobile
G.O. General Office
G.F. General Factory
G.V. General Vitreous
G.P. General Porcelain
V.G.K. Vitreous General Kiln
F. & C. Finishing and Cleaning
D. & F. Drilling and Fitting
P. & S. Packing and Shipping

Department Sub-classifications

1 Porcelain Material
2 Vitreous Material
3 Coal
4 Wad and Sagger Clay
10 Miscellaneous Material
11 Direct Labor
12 Indirect Labor
13 Wage Increase
14 Bonus
15 Executive Salaries
16 Office Salaries
17 Salesmen's Salaries
21 Insurance
22 Depreciation
23 Taxes
26 Salesmen's Commissions
27 Other Commissions
28 Catalogue and Advertising
29 Travel
30 Repairs
31 Legal
32 Donations
33 Dues and Subscriptions
34 Supplies
35 Telephone and Telegraph
36 Inbound Freight
38 Outbound Freight
50 Miscellaneous Expense

Routine of Customer's Order

After the acceptance of the order by the credit department, it is sent to the billing department, where a copy of it is made in quadruplicate, one being used as the shipping order, one for office copy, one for customer's acknowledgment, and one for salesmen's copy.

The shipping order and acknowledgment are then turned over to the expediting department, where such detail as determining if the goods are in stock, or if they are in the course of production and the stage, are ascertained. If the goods are not in stock and are not in process, a factory order to manufacture is made up. This is given the foreman of the press shop, who immediately requisitions sufficient clay and the proper molds for its making. The acknowledgment is then forwarded to the customer with approximate shipping date.

From the factory order is made the order to the workman, which is made in triplicate. This also serves as a basis for determining production as well as the worker's pay. One copy of this form is sent to the pay-roll department, one copy for the foreman, and one for the workman.

After the piece is pressed, the factory order is returned to the expediting department, where it is placed in a file which will automatically bring it to the attention of the clerk in charge at stated intervals as the piece is coming through the various processes. For instance, two weeks later it should be going through dry-room, where it remains ten to fourteen days, and is delivered to glazing department, where it will remain two days. It is delivered to kiln, where it remains two weeks, then it is delivered to finishing deparment, from there it is delivered to shipping room.

For each of the above moves, the factory order is also moved to again bring it before the clerk's attention for the next process. The expediting clerk's duty is to see that all the pieces are placed through the processes on schedule.

Handling of Stores

The physical handling of stores presents a problem that is difficult to record in an accounting record. In order to make the presentation of the item of

Month of.............................. ....Dept.

Items	Year This Month	1921 Cost per lb. of clay	Year This Month	1920 Cost per lb. of clay	Year Last Month	1921 Cost per lb. of clay
Materials						
Flint						
Spar						
Clay						
Oxides						
Grog						
Water						
Total						
Labor						
Foreman						
Making						
Pugging						
Mauling						
Unloading						
Repairs						
General Labor						
Total						
Miscellaneous:						
Filter Bags						
Supplies						
Miscellaneous Expense						
Total						
Share of						
Fixed charges						
Power						
General Factory						
Total						
Grand Total:						
Production:						
Lbs. of clay made						

Form 1

The aim is to introduce a similar statement for each productive department.

stores simple, we will divide them into two classes: first, materials of a bulky nature; and second, materials of a smaller nature.

Clay, coal, flint, spar, and glaze, and line material fall under the first class of stores. Due to their nature, it is not only desirable but necessary to store these materials where they are the most accessible to the departments using them. It is difficult, therefore, to establish a control over their requisitioning. The foremen in the departments are charged with the duty of caring for and compiling the monthly report of quantities used, which are sent to cost department for entry. In order not to allow the foreman to become careless in his manner of attending the stores, a systematic monthly check of one or more stores is made.

The stores of a smaller nature are placed in bins and receptacles in a storeroom in charge of a competent stores clerk. These stores are issued only on requisition. The requisitions are sent to the cost department daily, where they are priced and extended and filed until close of month. Then they are totaled and charged through the department analysis to the proper departments.

Labor

Workers are divided into three general classes—skilled, semi-skilled, and unskilled.

The skilled workers are men who have served a number of years in one particular branch of the industry, and who have become proficient at that particular work. They include the mold-makers, modelers, pressers, glaze-mixers, body-mixers, and packers. Some of these employees become so attached to their work that one sees them working at their bench with an interest similar to that of a high-grade artist or sculptor.

The semi-skilled workers are extremely different from the above class, as their work depends mainly upon brawn and physical endurance. Under this heading are the dippers, sagger-makers, slip-cellar helpers, shippers, painters, polishers, grinders, kiln-placers, kiln-drawers, firemen, and kiln-repairmen.

The unskilled workers embrace all the remaining men and include hustlers, mold-carriers, coal laborers, clay-carriers, saggermen, and ware handlers.

The skilled workers are paid on a piece-work basis, their count being taken at close of day by the foreman in charge of the department. At weekly intervals, the count is sent to the pay-roll department where such checking as price per piece, number of pieces made, and extensions are made, and entry is made on the payroll. These weekly sheets also establish the original record of production. The semi-skilled and unskilled workers are paid on the time basis. They punch a time clock when they arrive in the morning, at noon when they leave for luncheon and when they return from luncheon, and when they leave at night. The foreman in charge writes up the number of hours and class of work performed on a daily time sheet and turns it over to the time-keeper, who checks the time against the clock card and brings to the observation of the foreman any discrepancies. After all time has been accounted for, the daily time sheets are sent to the pay-roll department for entry.

Entering Time

In the pay-roll department, the time is entered daily on collection sheets; each man's time is analzyed and charged to the department for which he has been working. At the close of each week these items are posted to the pay-roll analysis under their respective headings. The pay-roll analysis is so arranged as to absorb charges for a month without a new sheet being added. The cost accountant takes this summary of the pay-roll items and posts the items to his departmental analysis sheets.

Overhead

Overhead can be defined as that item of cost which cannot be directly allocated to a particular job or process. In the treatment of overhead we have divided it into three subdivisions, namely, that which arises from labor, that which arises from stores, and fixed charges.

From the pay-roll analyses are collected such charges as executives', clerks', and foremen's salaries and other indirect labor charges throughout the factory. When these are compiled, the overhead from the employment of labor is ascertained.

The stores report and daily requisitions are segregated, and such items as have not been used directly in manufacture of the product are tabulated and the overhead from the use of stores is ascertained.

The third source of overhead is that which arises from fixed charges, such as taxes, depreciation, and insurance. These charges are allocated to each department on the following basis: Taxes are estimated at the first of the year and are distributed to the departments on basis of floor space used. This estimate is corrected upon receipt of tax bills.

Depreciation is divided into two kinds—depreciation of buildings and depreciation of equipment. Depreciation of buildings and insurance on buildings are distributed to the various departments based on the amount of floor space used. Depreciation of equipment and insurance on equipment are distributed on basis of value of equipment in the department.

Such miscellaneous charges as liability, boiler, pay-roll, and automobile insurance, are charged direct to the department for which the charge has been incurred.

Monthly Statements

A series of monthly departmental statements are now being formulated. These will have as their aim the setting up of standards of production and the establishing of managerial efficiency. This report is illustrated in Form 1.

An operating profit and loss statement is made each month for each of the sales lines. This statement for porcelain is as shown in Form 2. The various items that appear in this statement will now be briefly explained.

Operating, Profit and Loss Statement

Month of..............192....

Porcelain

Gross Sales		$xxxxx
Deduct Allowances		xxx
Net Sales		xxxxx
Deduct, Cost of Goods Sold		xxxxx
Gross Profit		xxxxx
Deduct. Packing and Shipping Expense	xxxx	
Selling Expense	xxxx	
		xxxx
Net Profit for Line		xxxxx
Add. Other Income		xxxx
Extra Grinding Porcelain		xxxx
		xxxxx
Deduct:		
Loss on Porcelain Returns	xxxx	
Loss on Vitreous Returns	xxxx	
Loss on Fitting Returns	xxxx	
Loss on Vitrico Returns	xxxx	
		xxxx
Net Profit on operations		xxxxx
Deduct:		
Interest	xxx	
Discount and Exchange	xxx	
		xxx
Net Profit for Month		xxxxx

Form 2

NOTE: There has been shown treatment of only one of the sales lines, but as the remaining three are treated the same they have been omitted for the sake of brevity.

Gross Sales: Includes all that increment accruing from the transfer of title of the particular goods to a customer for cash or credit.

Allowances: Includes such items as special discounts, allowances on merchandise, etc.

Net Sales: Is the gross sales less allowances.

Cost-of-goods sold: As it takes from ten to sixteen weeks to make a piece of ware, the cost of goods sold must of a necessity be an average of at least four months cost. This average is then multiplied by the number of that classification shipped, and when added to the other classes gives us the cost of goods sold.

Gross Profit: Is that which remains after deducting the cost-of-goods sold from the net sales.

Packing and Shipping Expense: Is that expense which accrues from preparing the finished product for shipment, and includes such charges as packing, foreman, addressing, and loading. It is distributed to the various Income Classifications on the basis of units shipped. (Each kind of piece has been measured and weighed, from which is determined its relative units).

Selling Expense: Is that expense which accrues from the effort to interest customers in the purchase of the product, and includes the charges of commissions, salesmen's salary and expense, executive salaries, advertising, proportion of office expense, etc.

Profit for Line: Is that which remains from the gross profit after the above expenses have been deducted, and represents the earning capacity of that line.

Loss on Returns: Is that element of the selling price of the ware returned that is in excess of the cost to produce, and is charged to Profit and Loss.

Interest, Discount and Exchange: Are items which result from a capital condition and need no explanation here.

A balance sheet is also prepared monthly. Inasmuch as this statement does not differ essentially from the usual type of balance sheet, the form is not given.

Regional Meeting of American Institute of Accountants

THE Regional meeting of the American Institute of Accountants was held in Cincinnati, on May 23. Delegates were in attendance from Ohio, Western New York, Western Pennsylvania, and Indiana. During the course of the meeting a message to the conference from Secretary of the Treasury Mellon was read to the delegates.

"In assisting the taxpayer to make his return and to prepare his case for proper presentation to the government authorities," Mr. Mellon's statement said, "an accountant is rendering a public service, and it is to the interest, therefore, of the taxpayer, the government and the accountant himself, that the service rendered should be honest and efficient and in accordance with the highest standard of professional ethics. The American Institute of Accountants is doing much to facilitate the work of the government in so far as practice before the Treasury is concerned."

At the daytime session interesting and timely subjects were discussed by prominent speakers, among whom were: C. R. Whitworth of Chicago, who spoke on "Misrepresentation"; Harold Worthington of Cleveland, who addressed the conference on the "Diversion of Assets"; and George S. Olive of Indianapolis, who discussed the subject of "Bankruptcy." Other speakers at the daytime session were John L. Richey, manager of the commercial and engineering department of the Cincinnati Association of Credit Men, and Clay Herrick, vice-president and credit manager of the Guardian Trust Company of Cleveland. Mr. Richey advocated restrictive legislation with respect to the accountancy profession. Mr. Herrick emphasized the necessity for a complete investigation of prospective clients or customers by banks and business houses before advancement of money or goods.

The conference ended with a dinner at the Hotel Gibson. Jules Gilmer Korner of Washington, Chairman of the Board of Tax Appeals, and Homer S. Pace of New York, Chairman of the Committee of Public Affairs of the American Institute of Accountants, were the principal speakers at the dinner.

In his talk Mr. Korner described the procedures of the board. The board is a court and is an independent agency, established by Congress to decide on appeal income, estate and gift tax cases, he said. Since the board had been established, 49 per cent of the cases coming before it have been decided in favor of the taxpayer, and 51 per cent in favor of the government.

Mr. Korner stressed the point that facts should be presented in the briefs the accountants filed before the board. Accountants, he said, were too prone to present conclusions, leaving out the steps by which they came to those conclusions. Members of the board are more interested in the evidence by which the conclusions are reached than they are in conclusions as such.

Indianapolis was chosen for the next regional meeting, which will be held some time in the fall.

Book Review

C. P. A. ACCOUNTING—Theory Questions and Problems, by George Hillis Newlove, Washington D. C., 1923, The White Press Co., Inc., 2 vols., XII. 396 and X 338 pp. each bd., and 1 vol. containing Solutions to Problems, divided into two parts.

To satisfy the needs of accountants preparing for professional examinations, the author has assembled in three volumes theory and auditing questions and practical accounting problems, which have appeared in 335 past C. P. A. examinations of the various states and in the American Institute of Accountants examinations, and he has prepared solutions thereto. The first two volumes are devoted to the stating of the questions and problems, with a brief discussion of the subject covered, and the third volume, which contains the solutions to the problems, consists of two parts.

In his treatment of the various phases of accountancy, the author has subdivided by chapters the subjects upon which questions have been asked. The first part of each chapter is devoted to a brief discussion of the subject of the chapter which is followed by a list of questions and problems upon the subject under consideration. Practically every phase of accounting theory and practice is included for discussion.

The earlier chapters of the first volume, include such general subjects, as the field of accountancy, double-entry bookkeeping, the balance sheet, and the profit and loss statement. Subsequent chapters include treatment of the various types of organization. Several chapters are devoted to the discussion of the partnership as at its organization, during operation, and upon liquidation. A chapter is devoted to corporations.

Later chapters of volume one treat of specific subjects such as interest, reserves and funds, bonds, dividends and surplus, etc. The material contained in the chapter on interest should be particularly helpful. Formulae are provided for computation of compound interest, discount, and annuity payments that should be valuable to the accountancy student who desires drill and review work upon the mathematical procedures which apply to accountancy.

Volume II contains chapters on further accounting classifications. A continuation of the treatment of specific subjects is found in this volume. The classifications found in this volume complete the treatment of the various phases of accountancy, and makes the work of the author comprehensive in nature and inclusive of practically every type of question or problem which is likely to arise.

In each volume there is provided a key to bibliographical references which enables the student to look further in event he desires additional information upon a particular subject.

The third volume, which consists of two parts, contains solutions to the problems in the first two volumes. There is no attempt made in the third volume to answer questions on theory. A student desiring a complete means of review might find himself at a disadvantage if he were compelled to make reference to other works to secure the theory answers. The solutions given for the practical problems while generally complete do not include detailed explanations of the steps involved.

For the student who desires a source for questions and problems arranged so that he may study them conveniently with the brief treatment of the subject presented, Mr. Newlove's work should be extremely helpful.

ABRAHAM M. KAUFMAN, B.A., a former student at Pace Institute, New York, who until recently was a member of the staff of the Imperial Audit Company, has opened an office for the general practice of accountancy at 257 Fourth Avenue, New York.

Pace Accountancy Society of New Jersey

IN the June issue of *The Pace Student* announcement was made with respect to the organization of the Pace Accountancy Society of New Jersey. The list of the first officers and the first Board of Governors was also announced in this issue as well as plans for a luncheon which was held at the Achtel-Stetter Restaurant, Newark, on Saturday, June 6th. Mr. Homer S. Pace was present at the luncheon and gave an interesting talk. The get-together was particularly successful.

The constitution and by-laws of the new organization follow:

Constitution

Article I. Name.—This society shall be known as The Pace Accountancy Society of New Jersey.

Article II. Purpose.—The objects of the society shall be to promote the social, educational and general welfare of its members.

Article III. Management.—The control and management of the society shall be vested in a Board of Governors. Its business shall be conducted in accordance with By-Laws, not inconsistent with this constitution which may be adopted from time to time.

Article IV. Officers.—The officers of this society shall consist of the president, vice-president, secretary and treasurer.

Article V. Membership.—Any person who has completed Semester A at Pace Institute or the equivalent to such training may be eligible for membership.

Article VI. Meetings.—Meetings shall be held as provided for in the By-Laws.

Article VII. Committees.—Such committees as are deemed necessary will be appointed by proper authority.

Article VIII. Amendments.—This Constitution may be amended at any regular meeting of the society in the manner provided for in the By-Laws.

By-Laws

Article I. Membership.—Any person who has complied with the qualifications stated in the Constitution shall file his or her name and address with any member of the Board of Governors accompanied by a membership fee of 50c. (Fifty Cents). Upon acceptance by the Board a membership card will be issued admitting the new member to all the meetings and functions of this society.

Article II. Board of Governors. This Board shall be composed of the president and secretary of this society and four members chosen from the society at large. The term of office of the Board of Governors with the exception of president and secretary shall be for two years. Two new members to be elected each year, to succeed those two whose terms have expired.

The regular meetings of the Board of Governors shall be held once a month and special meetings may be called at the direction of the president or at the request of two governors. Three members of the Board of Governors shall constitute a quorum for the transaction of business, and the majority vote of those present shall prevail. The president and secretary of the society shall be respectively president and secretary of the Board of Governors.

The record of its proceedings shall be kept and a report thereof submitted to the society at each regular meeting.

The Board of Governors may delegate any of its powers to a special committee which it shall appoint for that purpose and which shall render a full report of its proceedings in writing at the regular meeting of the Board of Governors.

Article III. Officers.—The officers of the society shall perform the customary duties pertaining to their respective offices.

The officers shall be elected at the annual meeting for the term of one year or until their successors are chosen. If a vacancy occurs in any office the Board of Governors shall have the power to elect a member to fill such vacancy for the unexpired term.

Article IV. Meetings.—The regular meetings of the society shall be held once each month at the time and place designated by notices. Special meetings may be held upon call of the president or Board of Governors. Twelve members shall constitute a quorum for the transaction of business at any meeting of the society and a majority vote of those present shall prevail.

Article V. Assessments and Dues. There shall be no regular membership dues. The Board of Governors shall from time to time make current charges or assessments as are found necessary to carry on the affairs of the society.

Article VI. Election.—At the regular meeting held in January of each year a nominating committee of five shall be elected by the members. This committee shall at the regular meeting in February submit a proposed list of candidates. In addition to this, nominations may be made by any member from the floor at the meeting at which such report will be submitted. At the regular meeting in March, election of officers and governors will take place by ballot.

Installation of the new officers and governors will be held at the regular meeting in April.

Article VII. Rules of Order.—Meetings of both the society and board of governors shall be conducted according to the accepted rules of parliamentary procedure.

Article VIII. Amendments.—The By-Laws may be repealed or amended by a majority vote of all members present, after a month's notice has been given for the intention to amend.

Massachusetts Society of C.P.A.'s

THE Massachusetts Society of Certified Public Accountants, Inc., celebrated the Twenty-Fifth Anniversary of the Founding of the Society by a formal dinner at the Hotel Somerset, Boston, on Monday evening, April 27th. Following the dinner, which was attended by about one hundred and fifty members and guests, Stanley G. H. Fitch, President of the Society and Toastmaster, introduced as the speakers of the evening Honorable Henry F. Long, Commissioner of Corporations and Taxation of the Commonwealth; John B. Niven, President, American Institute of Accountants, representing the Institute; Roland W. Boyden, President, Boston Chamber of Commerce, and George R. Nutter, President, Boston Bar Association. Harvey S. Chase, the first Secretary of the Society and also a past president, delivered an historical address covering the origin, growth and development of the Society. Arthur T. Chase, Treasurer of the Society, recited a fantastic ode commemorative of some of the leading men of the profession, both National and State.

Other guests present included A. P. Richardson, Secretary of the American Institute of Accountants, Arthur P. Tucker, Assistant Secretary for Public Affairs, American Institute of Accountants, Thomas H. Sanders, President, Boston Chapter, National Association of Cost Accountants, Frederick H. Hurdman, C.P.A. of New York, C. F. Seager, President, Georgia Society of Certified Public Accountants, and Chester M. Foss, President, Maine Society of Certified Public Accountants, and W. S. Kemp, President of the National Association of Cost Accountants.

Letters and telegrams were received from the Presidents of the following State Societies:—

Maryland	Wisconsin	Indiana
Missouri	Louisiana	West Virginia
Arizona	Virginia	Oregon
California	Kansas	Washington
Oklahoma	Illinois	Montana
Kentucky	Ohio	Rhode Island
So. Carolina	District of Columbia	
Idaho		

As evidence of the general interest taken by the members in the celebration, nine of the eleven living ex-presidents attended the dinner. Sterling silver pocket-knives engraved with the initials of the Society were distributed as souvenirs of the occasion.

From every standpoint the celebration was a pronounced success. The beautiful and well appointed Princess Dining Room of the Hotel Somerset was fittingly decorated. The menu was above the criticism even of a connoisseur. The guests were entertained during the dinner by music furnished by an excellent orchestra and during and following the dinner the crowd engaged in some very spirited group singing of a high class.

Cost Accounting for Banks

ACCOUNTANTS will find much of interest with respect to cost accounting for banks included in the remarks of Arthur W. Loasby, president of the Equitable Trust Company, who addressed the New York State Bankers Association recently on this subject.

Mr. Loasby's remarks are reprinted as they appeared in the June 23rd edition of the *Journal of Commerce*.

"Now many of you have your own methods of determining costs, and I have no desire to upset any of your methods or to intimate that my plans are better or more complete," said Mr. Loasby, "but I shall try to outline briefly how we operate our analysis department and what it accomplishes in the hope that you may possibly profit by my remarks.

"Depositors invariably feel that any account is profitable to a bank, and I think that it is more than 50 per cent the banker's fault that they do. Many experienced bank executives themselves believe that a fair average balance invariably signifies a profitable account, yet the reverse is often the case. Bank officials have a weakness for judging deposit accounts by their size rather than by the sum transferred to profit or loss as a result of carrying the account in the bank. I venture to say that many of your large deposit accounts ultimately do not prove as profitable as some of the smaller ones, because of the higher rates of interest paid, the activity of the accounts, and the special service rendered.

"In analyzing our accounts, I do not think we need have misgivings regarding the possible antagonism of our depositors. We are simply allowing ourselves the same privilege accorded the manufacturer who figures his cost of production as a part of his selling expense. However, we must convince our customers of our fairness and sincerity in conducting our account analysis.

Cost Accounting

"The analysis or cost accounting department in my bank operates on the recognized principle that each item entered on our books entails additional expense. The size of a man's average balance in relation to the number of items handled for him, while very important, is only one of a number of factors which govern our final decision regarding the status of his business. For example, there are to be considered also the profits on other accounts carried by the depositor in his name, the profit on business carried in other departments, the profit on accounts introduced or controlled by the depositor and the profit on business carried in our branch offices. On the other side of the ledger we scrutinize carefully such items as the expense of work done at a loss in other departments, expense of printing checks, or work done at a loss in any of our branches.

"When an otherwise desirable account is showing our bank a loss, we generally try to place the account on a profitable basis by one of the following means—by requesting the deporitor to increase his average balance, or if this plan is not feasible, to decrease the activity in the account. In many instances a lessening of the activity in an account is not possible because most business men draw checks and deposit items as their own business activity dictates. In instances of this kind, our final resort is to suggest a reduction or discontinuance of interest and generally speaking this plan is acceptable when the others are not considered practicable. Our borrowing accounts are analyzed every month and ordinary balances at least twice a year and contrary to the popular opinion that the work is conducted by a corps of high priced experts, it is really accomplished by a comparatively small group of employes who have been specially trained for the work.

"I have been asked if cost accounting can be applied to the other major divisions of a modern bank. It can, but the methods employed should be modified to fit the circumstances. In our general banking department we pay our customers for the use of their funds—we pay them annually, as I have pointed out, twice the amount we pay to our stockholders, so that you can readily appreciate how necessary it is to definitely determine how much we can afford to pay on each average balance. The conditions are difficult in the other departments, where our profits are determined by the fees we ask for our services and the amount we are willing to spend on department operating expense.

Operating at a Loss

"The ratio of trust department operating costs to profits was further increased in many institutions because these trust services were being used as a bait to attract new business for the banking department, the business being handled at totally inadequate fees. I know that a cost analysis in two of the largest New York city trust companies disclosed the fact that their personal trust departments and their registry and transfer departments were running at substantial losses.

"It was the introduction of cost accounting methods in the trust departments of some of the large New York trust companies which first checked the growth of this unsound practice and led subsequently to the gradual development of a standard scale of fees—a scale offering adequate compensation for the responsibilities assumed and the work involved, yet moderate enough to allow the trust companies to continue to attract new business."

Brooklyn Credit Men Hear Charles T. Bryan

AT a recent meeting of the Brooklyn Credit Club held at the St. George Hotel, Brooklyn, Charles T. Bryan of the firm of Pace & Pace spoke on "Credit and Credit Frauds."

Mr. Bryan treated his subject from the viewpoint of the accountant and illustrated his talk by cases which had come to his attention during his experience as an accountancy practitioner.

J. B. Riggan of the Cheek-Neal Coffee Company and president of the club presided.

The general discussion of the meeting was given over to the discussion of credit frauds, a drive against which is being made by the National Association of Credit Men and the American Institute of Accountants.

ROLAND M. WIGGINS, a graduate of Pace Institute, New York, has recently received his New York State C.P.A. certificate.